



Rural Diversification

Some Issues for Central America

Paul Siegel

March 3-4, 2003



Rural Diversification—Why?

- Concerns in late 1980s of “commodity price crisis,” market and trade liberalization, end of commodity boards, commodity agreements
- Current concerns about Central American coffee price crisis, other commodities, climatic risks, trade agreements, persistent rural poverty
- IADB-WB-USAID “Coffee Crisis” workshop in Antigua April 2002 (report, coordination)
- New directions for agriculture and rural development to manage rural risks and assets



Structure of production 2000

Share of Value of Agricultural Output (%)

	Coffee	Bananas	Sugar	Subtotal	Maize	Total
Costa Rica	16	26	7	49	1	50
El Salvador	69	1	4	74	6	80
Guatemala	7	2	13	22	21	43
Honduras	NA	NA	NA	NA	NA	NA
Nicaragua	11	3	14	28	12	40
Panama	3	6	3	12	3	15



Source: Panorama de la Agricultura de America Latina y Caribe 1990-2000. ECLAC/CEPAL 2001.

Coffee sector

	% Total Exports	# of Producers	# of Labor Force	Percent of Rural Labor Force
Costa Rica	5	73,000	200,000	28
El Salvador	11	24,000	160,000	17
Guatemala	21	63,000	700,000	31
Honduras	26	90,000	300,000	26
Nicaragua	27	30,000	280,000	42

Source: Varangis, Siegel, Giovannuci, Lewin. 2002. Dealing with the Coffee Crisis in Central America. Policy Research Working Paper. Washington, DC: World Bank.

Note: Nearly 2 million persons receive some of their income directly from coffee production. However, not all of the 280,000 producers and 1,640,000 laborers are full time employed in coffee production.

Big challenge for CAFTA

- A recent article on CAFTA in *The Economist* (February 15, 2003, p. 35-36):
- “The biggest problem is the perennial one of farming. Hundreds of thousands [actually millions] of Central Americans scratch a living from just three crops, maize, coffee and sugar. Maize farmers, in particular, will need aid.”
- E.g., PROCAMPO program in Mexico
 - But, who will fund such a program?

New approaches to rural development

- IADB, World Bank, USAID
 - Policy reforms, competitiveness, higher-value agriculture, agri-business, off-farm and non-agricultural activities
 - Agricultural & Rural Diversification, safety nets
 - World Bank study “Identifying Drivers of Sustainable Rural Growth and Poverty Reduction”
 - Asset-based approach
 - Assets (broadly defined), risks and policy context, livelihood strategies, outcomes
 - Use geographic information systems (GIS), household/community data, livelihood studies to identify geographic zones, household typologies
- => Heterogeneity of conditions and solutions

Principles of rural diversification

- Agricultural specialization vs. diversification
 - Level of analysis: farm, community, region, nation?
- Agricultural vs. rural diversification
 - Rural diversification includes agriculture, and more
- Rural diversification as part of rural development process (sectoral, spatial)
 - Rural-urban linkages, rural towns, migration
- Don't pick winners or losers
 - But be aware of differential impacts



Diversification options

- Changes to improve profitability
 - Changing how something is produced
 - Changing how it is marketed, financed, insured
 - Changing form of final product (e.g. corn in USA to ethanol and high fructose sugar)
- Switching to other enterprises
 - Changing what is produced and where
- Commercialization, comparative advantage, increased market activities and trade

Rural poverty exit strategies

- Out-Migration (urban areas, other countries)
- Improved Agricultural Production
 - ➔ Household labor on small farms
 - ➔ Commercial farms, hired labor
- Multiple Activities
 - ➔ On/off Farm, Ag/Non-ag, Microenterprise, Seasonal Migration
- Social Assistance (formal, informal)



Incentives for diversification

- Macroeconomic incentives framework
- Minimize market and trade distortions
- Improve legal and regulatory framework
- Level playing field (domestic, Central America regional, international markets)
- Investments in productive infrastructure
- Investments in human and social capital (education, health, organizations)

Incentives for diversification

(continued)

- Support services (e.g., financial, marketing, technical assistance)
- Strengthen public and private sectors, NGOs, cooperatives and interactions
- Need conditions for
 - Flexible resource allocation and decision making
 - Efficient financial and market transactions, along with risk management instruments

Impacts of rural diversification

- Short-, medium-, and long-term impacts
 - Economic (winners and losers by sectors, regions, individuals, firms)
 - Fiscal (tax revenues and budget expenditures)
 - Social (changing relationships, migration)
 - Environmental (changing natural resource use, pollution, protected areas)
 - Political (incentives, included vs. excluded groups, safety nets, safeguards)
- What about dynamics and sustainability?

Lessons learned

- Get macroeconomic incentives framework “right”
- Compete on quality, not just quantity
- Importance of links between agricultural and other activities
- Seek partners that can provide technologies, inputs, finance, markets and share risks (“matchmaking”, vertical integration, supply chains, contract farming)
- Target both domestic and foreign markets
- Maintain flexibility in production, finance, and marketing



Lessons learned (continued)

- Appropriate roles for public and private sectors, civil society, and NGOs
- Need targeted investments and technical assistance to help rural poor benefit from process
- Need to strengthen institutions and organizations to help rural poor
- Need transitional assistance, safety nets for poor
- There is no “silver bullet”, but lots of “gray areas”
 - For example, cluster development as a strategy
 - Is this picking winners and losers?



Opportunities and constraints for Central America

- Many opportunities, many constraints
- Chemonics report for USAID, 2002
- Opportunities
 - Agro-ecological diversity
 - Proximity to North and South America
 - Economic, social, political networks
 - Horticulture, floriculture, agroforestry
 - Eco-tourism potential, eco-products
 - Inexpensive labor



Opportunities and constraints for Central America (continued)

- Constraints
 - Difficult terrain, low soil fertility
 - Lack of dependable water sources
 - Uncertain land rights, tenure
 - Financial sector problems
 - Poor transport, communication, energy infrastructure
 - Lacking port and airport facilities
 - Low literacy and business skill levels
 - Underfunded research and extension

Some possible areas for public investment and legislation

- Product and market research
- Technical assistance, capacity building
- Agriculture and food safety standards
- Improved
 - Marketing and logistics
 - Access to global markets
 - Access to credit and other financial services
 - Access to labor markets
 - Land rights and security
 - Organizations and institutions
 - Infrastructure and services



Challenges of rural diversification

- Increased competitiveness and diversification are part of the commercialization and liberalization economic, social, and political “package”
- Comparative disadvantage of rural poor, need to consider proactive assistance
- Short-term advantage to better endowed places and people, appropriate public/private roles
- How to level the playing fields given unequal distribution of assets and incomes
- How to identify priority areas for policies, investments, programs and sequencing
- How not to pick winners/losers, but to facilitate efficient/equitable conditions and outcomes



Information needs for rural diversification

- Local conditions—agro-ecology, infrastructure and services
- Economic, environmental, social conditions
- Potential markets for outputs and inputs
- Financial needs and sources of funds
- Available instruments to manage risks
- Barriers to entry (implicit and explicit)
- Necessary skills and resources
- Challenges to commercialization



Final reflections (Tabora, 1992)

“Diversification is really a leap of faith for many investors in non-traditionals. This can be cushioned with a supportive government or a large private sector program, which can provide expertise, physical resources, and other facilities to nurture infant projects ... While the private sector possesses the resources to pursue agri-businesses for diversification, the government can be a major supporter in developing favorable policies.”



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